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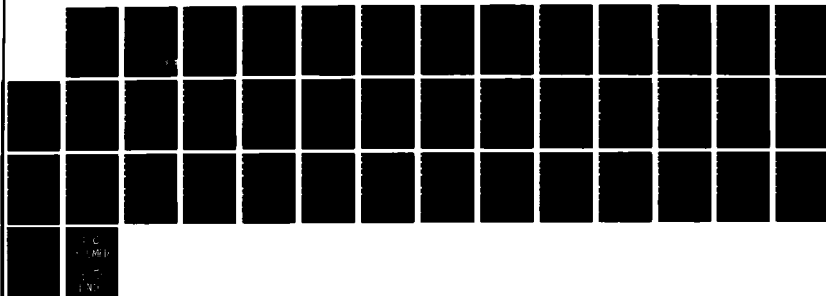
IRAN: ECONOMY SENSITIVITY AND INEPTITUDE GREASING THE
SLIDE TO INSTABILITY(U) DEFENSE INTELLIGENCE COLL
WASHINGTON DC F H PORTER 13 JAN 86

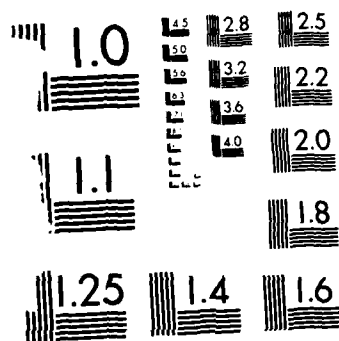
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|--|--|--|-----------------------------|
| 1a. REPORT SECURITY CLASSIFICATION Unclassified | | 1b. RESTRICTIVE MARKINGS | |
| 2a. SECURITY CLASSIFICATION AUTHORITY | | 3. DISTRIBUTION STATEMENT (If applicable) <div style="border: 1px solid black; padding: 2px;">This document has been approved for public release and sale; its distribution is unlimited.</div> | |
| 2b. DECLASSIFICATION / DOWNGRADING SCHEDULE | | Cleared for public distribution 18 Feb 86 | |
| 4. PERFORMING ORGANIZATION REPORT NUMBER(S) | | 5. MONITORING ORGANIZATION REPORT NUMBER(S) | |
| 6a. NAME OF PERFORMING ORGANIZATION Defense Intelligence College | 6b. OFFICE SYMBOL (If applicable) DIC-2 | 7a. NAME OF MONITORING ORGANIZATION | |
| 6c. ADDRESS (City, State, and ZIP Code) Washington, D.C. 20301-6111 | | 7b. ADDRESS (City, State, and ZIP Code) | |
| 8a. NAME OF FUNDING / SPONSORING ORGANIZATION | 8b. OFFICE SYMBOL (If applicable) | 9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER | |
| 8c. ADDRESS (City, State, and ZIP Code) | | 10. SOURCE OF FUNDING NUMBERS | |
| | | PROGRAM ELEMENT NO. | PROJECT NO. |
| | | TASK NO. | WORK UNIT ACCESSION NO. |
| 11. TITLE (Include Security Classification) Iran: Economy, Senility, and Ineptitude Greasing the Slide to Instability | | | |
| 12. PERSONAL AUTHOR(S) Commander Franz H. Porter, USN | | | |
| 13a. TYPE OF REPORT Special Seminar Paper | 13b. TIME COVERED FROM _____ TO _____ | 14. DATE OF REPORT (Year, Month, Day) 86 Jan 13 | 15. PAGE COUNT 39 |
| 16. SUPPLEMENTARY NOTATION | | | |
| 17. COSATI CODES | | 18. SUBJECT TERMS (Continue on reverse if necessary and identify by block number) | |
| FIELD | GROUP | SUB-GROUP | |
| | | | |
| | | Iran, Middle East, Economy | |
| 19. ABSTRACT (Continue on reverse if necessary and identify by block number) Iran is approaching a critical juncture in its political revolution. Pressures of economic deterioration, an aging Primate, and overtly inept leadership, present prospects of serious instability. Acknowledging inherent intelligence gathering limitations, this assessment will review the current political and economic implications of these problems and briefly address the many hazards and few opportunities they present to the United States. | | | |
| 20. DISTRIBUTION / AVAILABILITY OF ABSTRACT <input checked="" type="checkbox"/> UNCLASSIFIED/UNLIMITED <input type="checkbox"/> SAME AS RPT. <input type="checkbox"/> DTIC USERS | | 21. ABSTRACT SECURITY CLASSIFICATION Unclassified | |
| 22a. NAME OF RESPONSIBLE INDIVIDUAL Barbara J. Kuennecke | | 22b. TELEPHONE (Include Area Code) (202) 373-3309 | 22c. OFFICE SYMBOL DIC-2 |

DD FORM 1473, 84 MAR

83 APR edition may be used until exhausted.
All other editions are obsolete.

SECURITY CLASSIFICATION OF THIS PAGE

Unclassified

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MAR 13 1986
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APPROVAL SHEET

Title of Seminar: The Role of Economics in Intelligence

Title of Seminar Paper: Iran: Economy, Senility, and
Ineptitude Greasing the Slide to
Instability

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Date Approved: 10 JAN 86

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Date Approved: 13 Jan 86

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IRAN: ECONOMY, SENILITY, AND INEPTITUDE

GREASING THE SLIDE TO INSTABILITY

by

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PREFACE

Iran is approaching a critical juncture in its political revolution. Pressures of economic deterioration, an aging Primate, and overtly inept leadership, present prospects of serious instability. Acknowledging inherent intelligence gathering limitations, this assessment will review the current political and economic implications of these problems and briefly address the many hazards and few opportunities they present to the United States.

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KEY JUDGEMENTS

*The Islamic Republic of Iran has survived six years of turmoil, including the effects of post-revolutionary chaos, significant international sanctions, a small scale civil war, and a lengthy, devastating war with Iraq, thus demonstrating both the resiliency and a degree of permanence of this new Islamic regime.

*Facing formidable problems in reviving the economy and preventing the disintegration of rural communities, the pragmatic, conservative, and radical factions of the government remain unable, or unwilling, to reach a consensus on key issues, such as land reform and rights of private ownership.

*The ultimate dependence on the apparently increasingly senile Khomeini as the final arbiter in all disputed governmental actions, demonstrates an inherent weakness of the regime and projects a widespread impression of ineptitude at the top.

*The government's apparent lethargy in establishing coherent policy on the difficult question of the "Islamization" of Iran's economy has intensified economic misery and popular dissatisfaction with the regime. Further, recent factional infighting does not bode well for any near term improvement in establishing responsible economic

policies.

*Lacking the charismatic power of Khomeini, Montazeri, his newly designated successor, is unlikely to be able to establish an effective economic policy when he comes to power, further increasing the level of discontent of the majority of the populace.

*Aggravating the effect of continuing economic disarray are basic ideological conflicts among the leaders and factions, lack of agreement on needed legislation, shortages of skilled management and labor, widespread corruption, and increasing unemployment despite the drain of the war on available manpower.

*Exacerbating the downward trend in the economy are the cost of a continuing war with no apparent achievable end in sight, declining oil revenues in a soft world oil market, depleted foreign currency reserves with concomitant higher inflation, increased material shortages, cut-backs in development programs and a stagnating agricultural sector.

*Khomeini's hard line view of the US as "The Great Satan" will not be quickly abandoned by any successor leadership, making future US-Iran relations extremely tenuous at best.

*Without more reliable intelligence on the leadership of the armed forces and revolutionary guard or on their loyalties, it is hardly possible to forecast the political

and economic policies of a post-Khomeini ruled Iran. It seems safe to assume, however, a protracted period of instability during the succession, with little prospect of a dramatic reversal of Iran's fortunes for some time to come.

DISCUSSION

Survival:

The Islamic Republic of Iran has survived six years despite the effects of post-revolutionary chaos, significant international sanctions, a small scale civil war, and a lengthy, devastating war with Iraq, thus demonstrating the resiliency of purpose and the degree of permanence of this new Islamic regime. Original long term objectives for economic and social reconstruction, never clearly defined nor promulgated, have been expediently abandoned as war-needs dictate more urgent priorities that distort the economy and sacrifice grander objectives.

With no specific Islamic economic model to follow and forced repeatedly to temper its professed revolutionary ideals, the government muddles through its many challenges, depending on the charisma of the Iman Ayatollah Khomeini to mobilize support or disparage opposition as required to achieve its immediate goals.

The government faces formidable problems of reviving the economy and preventing the disintegration of rural communities. The leadership is split among three factions, pragmatic, conservative, and radical. These factions appear

unable, or unwilling, to reach a consensus on key issues of land reform measures and the rights of private ownership. Agriculture, the designated center of the Islamic economic reform, is particularly critically affected by the failure to resolve these key issues.

Agriculture:

In the first two years after the February 1979 revolution, this sector showed some promise, providing one of the few bright spots in a generally dismal economic picture. Starting with the March 1983/4 budget, agriculture was officially elevated to the status of "axis" of the revolutionary economy.(1) Expenditure on agriculture has not been lacking. The 1984/5 budget contains an appropriation of \$1.3 billion, and direct and indirect incentives for farmers have been increased almost every year since the revolution. (2) The returns, in terms of increased output, have been disappointing. Imports of foods have leveled at about \$2 billion a year, an indication of the gap to be bridged before the regime's goal of self-sufficiency is reached. It is estimated that self-sufficiency in grains will take another 10 years to achieve; and for all foods, including meat, perhaps another 15 years.(3)

The problem does not appear to be one of funding, but of planning and priorities. Officials are prepared to throw money at agriculture, but seem uncertain about how best to spend it. Part of the problem lies in the government's inability to provide adequate back-up services to farmers. Price incentives are not enough, the government must also provide loans, fertilizers, seeds, and technical support.

Even with the emphasis on agriculture, there is no evident masterplan to provide a framework for government and farmers. The lack of any such plan is exacerbated by the almost equally serious failure to settle the status of agricultural lands whose ownership has been disputed since the revolution, when many farms were taken over by peasants. An estimated 25% of prime agricultural lands are believed to be affected.(4)

The question of private ownership of land centers around principal 47 of the 1979 Islamic constitution which "honors" personal property obtained by legitimate means, concluding that the "details" of private ownership will be determined by legislation, which remains to be enacted. Islamic courts have upheld the rights of private ownership based on principal 47, in some cases returning the disputed land to pre-revolutionary landlords and issuing eviction orders to

those who have occupied the land since the revolution. As the parliament has been unable to agree on and legislate the details of private ownership in an Islamic society, the more radical factions of government have, in most cases, blocked the physical return of land to pre-revolutionary owners. When land has been returned, peasants and radicals have blasted the court's decisions as "a return to the Shah's ways." (5) The conservative factions of government, many of whom are land owners, managed to elicit Khomeini's verbal support for private ownership in early 1985, yet the required legislation reportedly has not been drafted. Six years of indecision on a fundamental aspect of agrarian policy, land ownership, reflects the indecisiveness of the regime. The resulting uncertainty of ownership stifles private agricultural investment, encourages migration of rural laborers to the cities, and reduces the overall efficiency of the agricultural sector.

The government's obsession with agriculture is not without cause. Stability in the rural areas, where most of the revolutionary regime's supporters reside, is seen as a political and social imperative. Increased urban migration of rural laborers combined with migration from war areas and refugees from Afghanistan have doubled the population of most

large cities since 1979. The strain on public services has resulted in problems with power, water and sewerage, housing shortages and increases in crime. The thrust of the government's rural re-settlement programs include new housing, potable water supply, and improved rural food distribution programs. To discourage urban migration, the government has begun to demolish illegally built housing in urban areas. (6)

Agriculture is just one sector of the economy that has been affected by the inability, or unwillingness, to resolve fundamental issues of Islamic principle related to the economy. A similar split in between factions of the government is echoed in the question of the limits of state control in economic development. Here again the ultimate dependence on Khomeini as the final arbiter in all disputed governmental actions demonstrates an inherent weakness of the government and purveys a widespread impression of ineptitude at the top.

Business:

A second crucial impasse that has stalled the economy since the revolution, relates to the question of how much the government should be involved in the business sector. Since late 1981, the government has moved toward ever increasing

nationalization, particularly of foreign trade. Again, the continuing struggle between factions has resulted in inconclusive policies. The radicals advocate strong government direction of all phases of the economy including land reform, nationalization of industry, government control of investment and foreign trade. The conservatives, including some clerics, businessmen and members of parliament, desire a limited government role in the economy and oppose the drastic changes desired by the radicals. The recently emerged so-called pragmatists include religious officials, government authorities and technocrats who appear willing to set aside some of the radical revolutionary rhetoric and dogma to in effect, "get the job done".(7) Although the pragmatists may appear to be an effective coalition, in many aspects they promote the radical line. The success of the pragmatists will depend on the progress in reviving the economy. None of the factions have been able to achieve sole control of the management of the economy resulting in divergent plans and programs and stalemated decisions.

Foreign Trade:

The question of how to conduct foreign trade is a prime example of the running battle among the factions since the

revolution. According to the 1979 constitution, all foreign trade must be nationalized, and steady progress has been made toward this goal since 1982. In practice, however, the government has found it difficult to exercise control over all aspects of imports and distribution. There have also been protests from merchants who saw themselves losing much of their traditional business. As a result, 1985 has witnessed a shift in emphasis, and perhaps direction. In a vaguely worded statement recently presented by Khomeini, he told the government it could not hope to do everything and that it was both proper and more practical to give the private sector as much leeway as possible.(8)

Khomeini's pronouncement has not entirely ended the controversy. Based on previous government performance, getting the required legislation in place will take some time. A bill to nationalize foreign trade has been repeatedly submitted since 1981. The Council of Constitutional Guardians has continued to reject the legislation as "unislamic". One of the Council's main objections is to the nationalization of non-essential imports; it is accepted that an Islamic government must import and control some goods essential to the public welfare, just as the nation has control over oil as an

export. The argument, however, is shifting more towards pragmatic rather than theological grounds, hinging on whether the private sector can do a better job.(9) While total nationalization is rejected under Islam, not everything can be freely traded. There are certain fundamental principles that have to be observed: a prohibition on profiteering, hoarding, monopolies and extravagant consumption. " An Islamic economy does not frown on wealth, but there must not be great disparities", according to the president of the Chamber of Commerce, Industries and Mines.(10)

To date, the government's apparent lethargy in establishing coherent policy on the "Islamization" of Iran's economy has intensified economic misery and popular dissatisfaction with the regime. Recent political developments do not bode well for any near term improvement in establishing stable economic policies.

Political Developments:

Moussavi's nomination for a consecutive term as prime minister appears to have been forced on President Khamenei, who, being a pragmatist, wanted a less radical prime minister and a cabinet including more conservative business people.(11) Khomeini's intervention and support for Moussavi decided the issue. Since then, several radical Tehran

dailies have indirectly criticized President Khamenei for his alleged attempts to bring capitalists into the government. Though reliable details are lacking, it appears that the conservatives were gaining strength in the period leading to the Presidential election in August, but with Khomeini's support for Moussavi, the balance shifted away from the conservatives. The Tehran daily, Islamic Republic, called on Moussavi to resist attempts to appoint a coalition government including representatives of the propertied classes, it concluded that in so doing the prime minister could count on the support of the people and Khomeini.(12)

Prime Minister Moussavi installed a new cabinet after following parliamentary approval of his nomination by a recently reelected President Khamenei. Local observers report most of the key ministers kept their portfolios, including commerce, economy and finance, heavy industries, metals and mines, industry, energy, agriculture and labor. The prime minister appointed two radicals to head the key oil and interior ministries.(13)

The increasingly open maneuvers of the factions within the regime caused Khomeini to again intervene calling for the government to play down their ideological differences when deciding how to run the economy.(14) In remarks that appeared

to address the widening split between the president and prime minister, Khomeini warned the government not to swamp the private sector with excessive state intervention and, despite ideological differences, achieve unity for both the country's and Islam's best interests.(15)

Industry:

Industrial growth, though far from healthy, has fared better than agriculture during the past two years. Industrial statistics from the Islamic republic are difficult to come by and those that are released must be utilized with some trepidation. It appears industry is apparently running at about about 50% of capacity. Output in the first three years after the revolution was somewhere near 30% of capacity, but started to improve in 1982 when it registered its first positive growth.(16) Growth in 1984, measured from an artificially low base, was officially reported at 24%, supposedly passing levels achieved in 1977 and '78. Plagued with a history of being notoriously inefficient, Iranian industry suffers from a lack of good management personnel, a position significantly worsened by the escape and exile of thousands of skilled laborers and managers after the revolution as well as the loss of virtually all foreign technologists.(17)

Most state-run industries nationalized since the revolution continue to operate at a loss. The heavy industries have been threatened with performance evaluations and cutbacks in foreign exchange unless they improved quality and increased the amount of local manufacturing content in the production of the end item. A reported ten major manufacturing concerns consumed nearly 70% of the foreign exchange allocated to heavy industry in 1984.(18) Further, industrial output continues to be negatively impacted by insufficient or irregular supplies of raw materials. In the first half of FY 84, and again in the first half of FY 85 austerity measures forced budget reductions and corresponding foreign exchange shortages resulted in restrictions on letters of credit by the Iranian Central Bank. Many factories were forced to reduce production in an effort to preserve raw material stocks with a reported drop in output of as much as 25%.(19)

Radical critics have questioned the value of many assembly related industries such as truck and tractor plants which import manufactured kits for assembly, implying that they should be shut down altogether as the product could be imported in its completed form with higher quality and at less total cost.(20) The economic cost of such action would

be a further contraction of domestic industries, including assembly plants, increased unemployment, and the loss of value added by domestic production. The pragmatic and conservative factions of government appear at least to realize the implications of any further reductions in domestic production , whether through increased inefficiency or poorly conceived closures. Iran's total dependence on oil revenues in a soft world oil market, combined with the continual financial drain of the war with Iraq make some positive growth in domestic production a prerequisite for survival of the current regime. Although the regime has demonstrated more effective planning and execution in industry than in agriculture, its recurring inability to reach timely compromise among the factions jeopardizes its ability to maintain control. This will be especially troublesome during a period of instability in a post-Khomeini era.

Finance:

The Islamic republic has maintained a relatively strong financial constitution in light of heavy pressure on its resources and administration. The fact that it has paid off a significant portion of its foreign debt and financed an expensive war without access to external borrowing is an

impressive achievement , in spite of the high oil revenues earned each year.(21) Iran's banks and banking groups are reportedly prospering inspite of a wrenching changeover to the Islamic system. However, the Finance and Economy Ministry has yet to push through the kinds of bureaucratic, financial and tax reforms that would put the government's finances on a more solid footing. Oil still accounts for more than two-thirds of government revenues while tax revenues are optimistically projected for FY 85 at about one quarter of total revenues. The share of taxes in the national income is small, as it has always been in Iran. The graduated income tax law promised after the revolution has, like other difficult legislation, yet to be finalized. Again, the difficulty of incorporating the religious aspects of the tax is partly responsible for the delay. Provisions for enforcing the tax on the self employed and corporations have also yet to be decided.(22)

Inflation:

Another difficulty facing financial planners is the amount of currency in circulation and the resultant inflation. This problem is partly inherited from the Shah and partly self-inflicted. Although reportedly acknowledged by the government as a problem, it appears to be accepted as a

natural consequence of financing the big budget deficit carried since 1981.(23) Other inflationary pressures such as consumer spending, low industrial and agricultural output, a high level of imports and the cost of the war with Iraq have defeated preliminary attempts to slow the rise of inflation. The official rate of inflation as reported by the central bank has decreased in the past three years from 30%, through 16% to a low of less than 10%. These rates clearly apply only to prices on items in the rationed, price controlled, supply system.(24) A estimates on the rate of inflation for prices of goods in the "free market" vary from a conservative 40% to a more realistic 80 to 100%.

Rationing:

The administration of the rationing system is one of the government's greater successes. Rationing was introduced almost immediately after the start of the Gulf war in 1980. Prices set by the government are low and, in effect, this ensures no one is deprived of the barest necessities.(25) Most lower-class families rely on rations for the bulk of their food, but many have to resort to the free market. The government tolerates the free market mainly, it appears, because it allows for more flexibility in the distribution of goods and provides scarce goods to the better-off who can

afford the higher prices. The second market alleviates war-induced hardship for the well to do, however, it is resented by those less well-off and encourages corruption; rationed goods often go missing, only to turn up on the free market at much higher prices.(26)

The parliament, more sensitive to public opinion than to the economic problems of the government, has pressed for a deflationary policy since 1981, chiefly by urging a reduction in deficit financing by slowing non-agriculture development and slashing imports. Government managers have responded by cutting imports as the apparently least painful method of stemming the outflow of dwindling foreign exchange reserves, lowering inflationary pressures and reducing the national debt. Critics of Moussavi's government claim his lack of vision and will to make difficult decisions have caused economic stagnation and further demoralized the public.(27) Other observers give credit to the government for surprising performance in the face of formidable economic and political difficulties. The answer may rest in how long modest achievements, accompanied by occasional severe economic problems, will satisfy the ambitions of the post-revolutionary society in Iran.

In spite of enforced cutbacks on non-essential imports to encourage domestic production and conserve foreign exchange, certain essential goods must be imported. As discussed previously, more than \$2 billion worth of food must be imported even though domestic agriculture is heavily subsidized. The war requires a flow of military equipment and imposes high costs of logistical support and transportation. Capital goods, raw materials for domestic production, and technical expertise also need to be imported. Self-imposed diplomatic isolation and threatening revolutionary rhetoric discourage foreign budgetary or balance of payments assistance.

Countertrade:

In order to obtain these goods and services while reducing foreign exchange expenditures, Iran has expanded the use of barter and countertrade. Barter deals have the effect of increasing oil sales through implicit oil price discounts built into the contractual agreements. On the surface, oil is traded at the OPEC bench mark price, however, the price of goods can be inflated to cover the "discounted" oil and commissions. Recent moves by Iran in hopes of spurring domestic industrial production include pressure to barter with manufactured goods as well as oil. The result has been

some reduction in trade with West Germany and Japan and an increase of trade contracts with the Warsaw Pact nations.(28)

Oil:

Aggressive marketing in the post-revolutionary years nearly doubled oil revenues to about \$2 billion in 1981. These earnings were used to increase imports to stimulate domestic production, and more importantly, improve the living conditions for an increasingly weary population who had long been waiting for some tangible indication of the promised better days ahead. Leadership talk of improved living conditions soon changed to that of sacrifice for the revolution as the world oil market softened and OPEC attempted to reduce production to maintain price levels. In late 1984, the Islamic government announced a planned 50% cut by volume of oil exports to support OPEC price levels. This toughened price policy appeared to be short-lived as the realization of reduced revenues combined with the fall off in agriculture and industry and the continued cost of the war drained foreign currency reserves and caused a moratorium on letters of credit by the Central Bank of Iran.(29) Additionally, Japan and other big customers were buying oil elsewhere at discounted prices. Iran responded by discounting prices for what the government termed

"war-related" reasons, increasing exports by almost one third. In early 1985 at an OPEC meeting, Iran again pressed for a hard line on upholding the price of oil but not on reducing production rates. Shortly thereafter, Iraq was successful in air attacks against Kharg island, which prompted Iran to again offer "war-related" discounts to increase oil sales. Iran's continually shifting oil policy and the repeated evidence of vociferously supporting a hard line pressing OPEC to reduce production so as to stabilize prices, while itself offering discounts for any number of reasons is similar in execution to all economic decisions made by the current regime. It demonstrates the inability to successfully balance conflicting goals, in this case increase foreign exchange revenue while trying to stabilize the world oil price at an apparently artificially high price.

War With Iraq:

Recent events in the war with Iraq raise many questions but few answers. Iraq has demonstrated a capacity to damage Kharg island, Iran's economic lifeline. In recent months, however, Iraq's threat to Iranian oil supplies has lost some impact in that, regardless of the damage inflicted on Kharg -- now well defended from air attack -- Iran has been able to move its oil to customers. The added expense of

transporting oil and compensating shippers for costs of war threat insurance has had only a modest impact on Iran.

The many clearly negative aspects of the war have not moved Iran from its hard line stance of required reparations paid by Iraq and the overthrow of Iraq's government as prerequisites for peace negotiations. Similarly, Iraq's brief campaign of war on the cities also failed to achieve the desired effect of forcing Iran to the peace table. A reported diplomatic effort by Iran to woo Saudi Arabia away from supporting Iraq has not apparently gained much support from the radical factions of the Iranian leadership.(30) Further, the lack of successful Iranian action in the war, perceived correctly as the cause of economic hardship, reportedly has brought complaints about this seemingly fruitless cause, as well as more recent social and political frustrations, to the surface. The complaints come mainly from the middle classes and those who feel no affinity with the aims of the Islamic republic; it is reported they are expressed openly and with little apparent fear of retribution.(31) None of these developments appear to be likely to contribute to an early end to the war. Both sides are settling in for an indefinite further period of war, while hoping that a change in their opponents' leadership

will bring an advantageous shift in policy. If this were to continue as the sole strategy, the war could last another six years -- a most unlikely course of events.

OUTLOOK

Prospects:

The level of reporting on Khomeini's poor health may eventually rival that of Mao's and Franco's; however, at 85 years of age, he is reportedly demonstrating increasing senility.(32) In November, the Ayatollah Hussein Ali Montazeri was selected as Khomeini's eventual successor, resolving a key question on the future of Iran. Montazeri, one of five grand Ayatollahs, studied under Khomeini. The 66 year-old has long been considered the likely successor and is seen as a relatively moderate Iranian revolutionary leader, who has made enemies among the hard-liners for his opposition to mass executions and widespread political arrests. He is considered to have far less popularity and political force than Khomeini. His ability to maintain control after Khomeini's death will require the strong support of the Revolutionary Guards, among whom he is said to have a following.(33) Lacking the charismatic power of his predecessor, Montazeri will be hard put to establish an

effective economic policy in the near term. The period of instability that is bound to be ushered in by the death of Khomeini will be one of heavy maneuvering by the factions within the regime. Lack of knowledge of the make-up and loyalties of the Revolutionary Guards and the regular military forces prevent a valid prediction of which factions or personalities will prevail. Such a period of turmoil, however, is bound to impact adversely on the economy and further increase the level of misery of the majority of the populace.

Conclusions:

The cumulative effect of Iran's myriad of problems will be the total loss of confidence in the regime. Aggravating the increasing economic misery are basic ideological conflicts over economic policy and required legislation, rapid urbanization, shortages of skilled labor and management, corruption, and increasing unemployment despite the drain of war on available manpower. Exacerbating the downward trend in the economy are the cost of a continuing war with no apparent achievable end in sight, lower than forecast oil revenues in a soft world oil market, depleted foreign exchange reserves with concomitant higher inflation, increased material shortages, cuts in development programs

and increased unemployment. The forced budget austerity measures will continue in the 1986 budget which already calls for a 13% cut in spending. Cuts in imports will cause even further declines in industrial production and extend delays in development. The deficit will likely be more than double that projected given overly optimistic revenue projections. The projected slight growth in gross domestic product is based on an increase in world oil demand. The delicate balance OPEC countries are trying to maintain to prevent a world oil price war is precarious at best. In the event of a rapid decline in the price of oil, Iran would be most seriously affected because of the stagnant, if not deteriorating state of its economy. A determined, successful effort by Iraq to inhibit Iran's oil exports would intensify Iran's economic problems who would most likely attempt to cause superpower intervention. This could be achieved by attacks on international shipping, other gulf states, or world wide terrorist actions. Even in an improved world oil market with the ability to produce and export oil at an increased rate, the current account deficit and lack of foreign currency reserves would hold down earnings.

Any further declines in the current standard of living could lead to greater domestic unrest. The government's plan

to institute and enforce personal income tax as well as increase corporate tax rates may provide a rallying point for the war-weary population to demonstrate its growing dissatisfaction. Even with a designated successor, the passing of Khomeini will inaugurate a protracted period of instability during which the struggle for political power could prevent decisive action on economic problems. In the somewhat unlikely event that the war with Iraq is ended, many economic problems would still exist. Increased oil production by Iran and Iraq would put downward pressure on oil prices. The massive return of troops would further tax already severely strained public services and social programs, foster unemployment and provide another source of instability.

The current economic situation in Iran provides few opportunities and more hazards for the United States. Khomeini's hard line view of the US as satan incarnate will not quickly vanish, even under a less messianic follow-on leadership. The US remains a primary target for Iran-sponsored terrorist attacks if the regime falters and needs a universal foe to regain public support. Continued economic problems may drive Iran closer to the Soviet Union, perceived as the lesser of two evils. Recently increased

countertrade agreements with Warsaw Pact nations not only provide protection from feared renewed economic sanctions but are more easily contracted with centrally planned economies.

Opportunities for the West lie mostly in increased trade between US allies and Iran. Turkey, now the largest trader with Iran, as well as Japan, West Germany, and Italy provide some influx of western influence and perhaps an eventual softening of Iranian actions toward the US. Further, Iran's continued efforts to remain competitive in the world oil market will keep prices down favoring western economic trends.

A real normalization of relations between the US and Iran seems a long way down the road. The most favorable scenario from the US point of view would be a gradual assumption of power by a coalition of conservative politicians, clerics, and leaders of the regular armed forces after the death of Khomeini, permitting the development of substantial economic ties between Iran and the West. Such economic interactions could eventually lead to normalization with the US. The worst case scenario for the US would show an alignment of leaders of the Revolutionary Guard with left-leaning radicals in an Islamic-fundamentalist government. If this were to be accompanied by "security" agreements with the Soviet Union it could spell the end of significant western influence on Iran.

Without more reliable intelligence on the leadership of the armed forces and revolutionary guard or on their loyalties, it is hardly possible to forecast the political and economic policies of a post-Khomeini ruled Iran. It seems safe to assume, however, a protracted period of instability during the succession, with little prospect of a dramatic reversal of Iran's fortunes for some time to come.

END NOTES

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11 "Iran," Middle East Economic Digest, 5 October 1985, p. 8.

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